

**Item 1: Cover Page**

**Part 2A of Form ADV  
Firm Brochure**

1/31/2015

**Iron Street Research, Inc. a/k/a Tactical Trading Signal**

SEC File No. 801-60876

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This brochure provides information about the qualifications and business practices of Iron Street Research, Inc. If you have any questions about the contents of this brochure, please contact us at [ironstreet@nextfinancial.com](mailto:ironstreet@nextfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority.

Additional information about Iron Street Research, Inc., is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

Initial publication date is 1/31/ 2011.

### **Summary of Material Changes:**

Since our last filing on March 21st 2012, we have made the following material changes to our Form ADV Part 2A:

Our Form ADV Part 2A has been revised to reflect a new email address for Iron Street Research, Inc., effective 2/28/2013.

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## Item 4: Advisory Business

### A. Description of Your Advisory Firm

Iron Street Research, Inc. a/k/a Tactical Trading Signal ("ISR" or "the firm") is an investment advisory and financial planning firm. ISR provides discretionary asset management services to certain of its clients.

ISR has developed an internet website titled TacticalTradingSignal.com, which is designed to provide subscribers with information on the movement of market indexes, including the S&P 500, Nasdaq 100, Russell 2000, DJIA, DJ Precious Metals Index, International and Sectors. The information provided on the website also provides information for use in tactical trading, asset allocation and sector rotation.

### B. Description of Advisory Services Offered

ISR is an independent investment advisory and financial planning firm offering a variety of financial services to individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Advisory services may include financial planning, investment strategy, portfolio management, and tax and estate planning.

For its discretionary asset management services, ISR receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 8 of this Brochure. In addition, pursuant to the terms of its investment advisory agreement with clients, ISR will remind clients of their obligation to inform ISR of any changes to their personal financial circumstances, investment objectives or risk tolerance, and modifications or restrictions that should be imposed on the management of their accounts. ISR will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### B.1. Subscriptions

ISR's internet site, TacticalTradingSignal.com, charges a non-negotiable subscription fee terminable by subscriber at any time. Types of clients for TacticalTradingSignal.com may include individuals, banks, corporations, trusts, estates, charitable organizations, and pension and profit-sharing plans. Subscription to the internet site is open to the public.

The monthly subscriber's fee will be \$30 each month, or a discounted fee of \$300 for an annual subscription. ISR also provides TacticalTradingSignal.com to companies that are the custodians of client accounts. ISR has no client funds under custody. The investment advisor and client are free to ignore or utilize the signal as they see fit.

TacticalTradingSignal.com provides information to its subscribers for general information purposes. The information provided is not an offer to buy or a solicitation of an offer to sell, or an endorsement, recommendation or sponsorship of any company, security or fund. The opinions and analysis included in the information are based from sources that

are believed to be reliable and are written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy, completeness or correctness. TacticalTradingSignal.com does not hold itself out as a financial analyst, financial bank, securities dealer or financial planner.

### **B.2. Separately Managed Accounts**

ISR manages portfolios for individuals, trusts, corporations, partnerships, retirement plans and other legal entities on a discretionary basis utilizing securities and strategies itemized in Item 8 of this Brochure. In addition, ISR, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions, as more fully described in Item 16 of this Brochure.

### **B.3. ISR Investment Strategies**

ISR offers the following investment strategies:

#### **B.3.a. International Rotation Strategy Using ETFs**

The International Rotation Strategy is designed to enhance overall portfolio diversification and performance through exposure to a diversified portfolio of exchange traded funds ("ETFs") within specific international markets as determined by ISR.

Our proprietary strategy focuses on the momentum behind the various international markets and allocates dollars to the top momentum driven international markets with quarterly rebalancing. We believe in diversification, which is why we focus on the top five international markets. Depending on our momentum model, there will be situations when less than five international markets will be held. When there are not five positive momentum international markets to hold for a quarter, we recommend allocating dollars to those we have identified and the balance in cash.

ISR's International Rotation Strategy is equally dollar weighted among the top five momentum markets. When there are not five positive momentum international markets to hold for a quarter, we recommend allocating dollars to those we have identified and the balance in cash. All rebalancing is performed at the end of each quarter.

#### **B.3.b. Sector Rotation Strategy Using ETFs**

The Sector Rotation Strategy is designed to enhance overall portfolio diversification and performance through exposure to a diversified portfolio of ETFs within specific industry sectors as determined by ISR.

Our proprietary strategy focuses on the momentum behind the various industry sectors and allocates dollars to the top momentum driven industry sectors with quarterly rebalancing. We believe in diversification, which is why we focus on the top

five industry sectors. Depending on our momentum model, there will be situations when less than five international markets will be held. When there are not five positive momentum international markets to hold for a quarter, we recommend allocating dollars to those positive momentum markets we have identified and the balance in cash.

The Sector Rotation Strategy is equally dollar weighted among the top five momentum markets. When there are not five positive momentum international markets to hold for a quarter, we recommend allocating dollars to those we have identified and the balance in cash. All rebalancing is performed at the end of each quarter.

#### **B.3.c. Long/Cash ETF Strategy**

The Long/Cash ETF Strategy is designed to outperform the S&P 500 index by employing a highly disciplined strategy of investing in ETF index funds. The strategy involves an in-depth proprietary technical analysis that allows ISR to identify those ETF index funds expected to outperform the S&P 500 in a period of rising markets. In declining markets, ISR attempts to identify when periods of declining markets will occur and re-allocate the existing portfolio of ETFs to cash. The cash position may include short-term, investment-grade fixed income instruments and/or money market funds.

#### **B.3.d. Long/Cash with Leverage ETF Portfolio**

The Long/Cash with Leverage ETF Portfolio is designed to outperform the S&P 500 Index. In seeking to meet this objective, ISR will utilize a highly disciplined strategy that emphasizes an in-depth proprietary technical analysis of the markets to invest in leveraged index tracking funds in rising markets, and to divest in declining markets. The Long/Cash with Leverage Portfolio will consist of a "bullish" or "neutral" allocation. ISR will utilize various leveraged index funds within the bullish allocation. The neutral allocation will utilize fixed income and/or money market funds.

#### **B.3.e. Long/Short ETF Strategy**

The Long/Short ETF Strategy is designed to outperform the S&P 500 index by employing a highly disciplined strategy of long purchases and short sales of ETF index funds. The strategy involves an in-depth proprietary technical analysis that assists ISR in identifying those ETF index funds expected to outperform the S&P 500 in a period of rising markets and those ETFs expected to fall in a period of declining markets. The Long/Short Portfolio will consist of a "bullish," "bearish," or "neutral" allocation. The cash position may include short-term, investment-grade fixed income instruments and/or money market funds.

#### **B.3.f. Long/Short with Leverage ETF Strategy**

The Long/Short with Leverage ETF Strategy is designed to outperform the S&P 500 index by employing a highly disciplined strategy of long purchases and short sales of ETF index funds. The strategy involves an in-depth proprietary technical analysis that

assists ISR in identifying those ETF index funds expected to outperform the S&P 500 in a period of rising markets and those ETFs expected to fall in a period of declining markets. ISR Long/Short with Leverage ETF Strategy will consist of a "bullish," "bearish," or "neutral" allocation. The cash position may include short-term, investment-grade fixed income instruments and/or money market funds.

This strategy is similar to the Long and Short Strategy except that it makes use of the full leveraging ability of the account. It is a very aggressive strategy as a result of utilizing leverage. The potential for returns are higher with this strategy but so are the risks. In a leveraged strategy, the investor controls more securities than capital invested. As a result, declines in the long portfolio as well as increases of the short portfolio can create significant loss of capital which, as a result of price movements of either the long or short portfolio, may require additional deposits of capital. The cash position may include short-term, investment-grade fixed income instruments and/or money market funds.

#### **B.3.g. Long/Short Precious Metals ETF Strategy**

The Long/Short Precious Metals ETF Strategy is designed to outperform the Precious Metals index by employing a highly disciplined strategy of long purchases and short sales of ETF precious metals index funds. The strategy involves an in-depth proprietary technical analysis that assists ISR in identifying those precious metals ETF index funds expected to outperform the Precious Metals Index in a period of rising markets and in identifying those ETFs expected to fall in a period of declining markets. The Long/Short Precious Metals Strategy will consist of a Bullish, Bearish, or Neutral allocation.

This strategy is similar to the Long and Short Strategy except it makes use of the full leveraging ability of the account within the precious metals industry sector. It is by far the most aggressive of the four strategies. The potential for returns are higher with this strategy but so are the risks. This is a leveraged strategy focusing primarily in one industry sector. There is an inherent lack of industry sector diversification and coupled with a leveraged strategy creates a high degree of risk. In a leveraged strategy the investor controls more securities than capital invested. As a result, declines in the long portfolio as well as increases of the short portfolio can create significant loss of capital which, as a result of price movements of either the long or short portfolio, may require additional deposits of capital.

#### **B.3.h. Strategic Strategy**

The Strategic Strategy is designed to achieve returns in excess of the S&P 500 Index. In seeking to meet this objective, the Strategic Strategy utilizes a highly disciplined strategy that emphasizes an in-depth proprietary technical analysis that assists ISR in identifying the mutual funds or ETF's to be invested in rising markets, and to be divested in falling markets. The Strategic Strategy will utilize varying degrees of exposure to fixed income instruments and/or money market funds depending upon current market conditions. The Strategic Strategy incorporates a re-allocation system based on technical market condition and technical analysis of available mutual fund



and ETF's. The reallocation system will adjust portfolio weightings based on the technical analysis of the available funds and the technical outlook of the overall market environment.

#### **B.3.h. Focus Multi-Cap Stock Portfolio Strategy**

This strategy combines three leading indices - S&P 500, S&P Midcap 400, and S&P Small Cap 600 - as the universe of equities from which our momentum model will be used to allocate a stock portfolio that has the goal of outperforming the major benchmarks. This strategy provides access to a fair representation of the U.S. market which also provides access to all the major sectors. This strategy utilizes our proprietary momentum analysis to filter through a list of companies that have a certain level of momentum that should continue into the near future. This strategy will be reallocated into the top momentum driven stock on a monthly and/or quarterly basis, and also has a unique characteristic of auto adjusting into the top performing sectors of the market. Our momentum model has been developed with the goal of always being invested in the market with the belief that there is always some area of the market that is performing better than the overall market. This strategy also may utilize a stop loss system which is adjusted for the current market conditions.

#### **B.3.i. Focus Large Cap Stock Portfolio Strategy**

This strategy utilizes the S&P 500 as the universe of equities from which our momentum model will be used to allocate a stock portfolio that has the goal of outperforming the major benchmarks. S&P 500 is regarded as the best single gauge of the U.S. equities market. Although the S&P 500 focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities. S&P 500 provides access to a fair representation of the U.S. market which also provides access to all the major sectors. This strategy utilizes our proprietary momentum analysis to filter through a list of companies that have a certain level of momentum that should continue into the near future. This strategy will be reallocated into the top momentum driven stock on a monthly basis, and also has a unique characteristic of auto adjusting into the top performing sectors of the market. Our momentum model has been developed with the goal of always being invested in the market with the belief that there is always some area of the market that is performing better than the overall market.

#### **B.3.j. Focus Mid-Cap Stock Portfolio Strategy**

This strategy utilizes the S&P 400 as the universe of equities from which our momentum model will be used to allocate a stock portfolio that has the goal of outperforming the major benchmark. S&P 400 is now the most widely used index for mid-sized companies. The S&P 400 covers over 7% of the U.S. equities market. S&P 400 provides access to a fair representation of the U.S. Mid-Cap market which also provides access to all the major sectors. This strategy utilizes our proprietary momentum analysis to filter through a list of companies that have a certain level of momentum that should continue into the near future. This strategy will be reallocated into the top momentum driven stock on a monthly basis, and also has a unique characteristic of auto adjusting into the top

performing sectors of the market. Our momentum model has been developed with the goal of always being invested in the market with the belief that there is always some area of the market that is performing better than the overall market.

#### **B.3.k. Focus Small Cap Stock Portfolio Strategy**

This strategy utilizes the S&P 600 as the universe of equities from which our momentum model will be used to allocate a stock portfolio that has the goal of outperforming the major benchmark. S&P 600 is fast becoming the preferred small cap index in the U.S. The S&P 600 covers over 3% of the U.S. equities market. S&P 600 provides access to a fair representation of the U.S. Small- Cap market which also provides access to all the major sectors. This strategy utilizes our proprietary momentum analysis to filter through a list of companies that have a certain level of momentum that should continue into the near future. This strategy will be reallocated into the top momentum driven stock on a monthly basis, and also has a unique characteristic of auto adjusting into the top performing sectors of the market. Our momentum model has been developed with the goal of always being invested in the market with the belief that there is always some area of the market that is performing better than the overall market.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

ISR does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

ISR currently has \$0.00 in client assets under supervision. Please note that ISR is an internet advisor and operates under an exemption granted by the SEC that allows the firm to register with the SEC, provided it has fewer than fifteen (15) non-internet accounts.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Subscription Fees

ISR a/k/a Tactical Trading Signal provides access to its website for a subscription fee of \$300 for an annual subscription or \$30 for a monthly plan. Subscribers can terminate subscription after it commences by not renewing their subscription.

#### A.2. Separately Managed Account Fees

ISR's fees are assessed at 2.5% of the portfolio and are negotiable. Fees schedules are computed on the basis of the market value of the client's portfolio, payable in advance, and computed on the last business day of the preceding quarter. The quarterly fee is charged at one-fourth the annual rate as specified below. The initial quarterly fee is payable on the date the account is accepted and is computed on the market value of such assets on such date of account. Fees are negotiable.

ISR requires a minimum account size of \$25,000 as a condition of providing its discretionary asset management services. For accounts with less than \$25,000 in portfolio assets clients may be able to find comparable services at more favorable pricing elsewhere. ISR may, in its sole discretion, waive the required minimum. The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. ISR may modify the fee at any time upon thirty (30) days written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

Generally, fees will be charged in advance. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and ISR.

Asset-based fees are always subject to the investment advisory agreement between the client and ISR. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

#### A.3. Additional Terms for All ISR Client Accounts

Asset-based fees are always subject to the investment advisory agreement between the client and ISR. Such fees are payable quarterly in advance. The fees will be prorated if the

investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

A client investment advisory agreement may be canceled at any time by the client, or by ISR with thirty (30) days prior written notice to the client. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any unearned, prepaid fees will be refunded. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

## **B. Client Payment of Fees**

ISR will not take custody or possession of client funds or securities at any time except to the extent that ISR may deduct fees directly from the client's account. ISR will deduct advisory and custodial fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

## **C. Additional Client Fees Charged**

The fees charged by ISR do not include fees charged by any exchange traded fund, mutual fund, pooled investment vehicle, or any broker-dealer or custodian selected by the client. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents or, in the case of an exchange traded fund or mutual fund, in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. Clients using ISR may be precluded from using certain mutual funds or separate account managers because they may not be offered by their custodian.

Generally, fees will be charged in advance. Clients will be invoiced at the beginning of each calendar quarter based upon the market value (market value plus any credit balance or minus any debit balance) of their account at the end of the previous quarter.

Fees charged by mutual funds, exchange traded funds and privately pooled investment vehicles are separate and apart from the advisory fees charged by ISR. Similarly, the fees charged by the firm do not include any fees charged by a broker-dealer or custodian retained by a client to implement ISR's advice or to otherwise hold the client's portfolio securities.

#### **D. Prepayment of Client Fees**

ISR's fees will either be paid directly by the client or disbursed to ISR by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by ISR with thirty (30) days prior written notice to the client. If the agreement terminates other than at the end of a calendar quarter, ISR will promptly refund all unearned, prepaid fees to the client. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

#### **E. External Compensation for the Sale of Securities to Clients**

Other than as disclosed in Item 10.C. below, ISR financial advisors are compensated solely through a salary and bonus structure. ISR is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

ISR does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## **Item 7: Types of Clients**

ISR offers its investment services to various types of clients, including high-net-worth individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Although ISR provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by ISR for each of the investment programs it offers.

ISR requires a minimum account size of \$25,000 as a condition of providing its discretionary asset management services. For accounts with less than \$25,000 in portfolio assets clients may be able to find comparable services at more favorable pricing elsewhere. ISR may, in its sole discretion, waive the required minimum.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Methods of Analysis and Investment Strategies**

Iron Street Research, Inc. is primarily a technical driven RIA firm. Our models and strategies are based upon technical indicators that include many proprietary indicators developed through our own research. Our models incorporate many elements of technical analysis. We utilize trend analysis, momentum modeling, cycle analysis, chart pattern analysis, sentiment analysis, inter-market analysis, and statistics within our various models. We utilize long-term tactical asset allocation models. Our primary technical models are designed to tell us when to either be in the market or out of the market as a whole. We have models setup for the various major indices.

#### **A.1. Sources of Information**

##### **A.1.a. TradeStation**

TradeStation is a leading trading and analytical software that allows us to create and test new trading strategies, indicators, and also has a very powerful charting and analytics ability. We use this software to analyze indices, sectors, mutual funds, individual stocks, and fixed income securities in the framework of technical analysis and charting.

##### **A.1.b. Morningstar Principia**

Morningstar Principia is one of the most widely used resources in the financial planning industry. With a powerful research database that includes 26,348 mutual funds, all listed stocks, variable annuities, exchange-traded funds, closed-end funds, and separate accounts, advisors can conduct advanced research and analysis, monitor portfolios, manage client accounts, and propose investment strategies. Principia has over 224 categories that can be filtered through and evaluated in selecting money managers. Principia also gives us the ability to build custom reports with simple colorful graph that will aid the Endowment in evaluating assets and performance returns. We have included in the back of this proposal some sample charts and reports that we have prepared using Morningstar Principia.

##### **A.1.c. Oxford Club**

Oxford Club offers subscribers daily, weekly, and monthly stock picks and market insight. Oxford Club has a panel of experts that search for unique investment opportunities, and then shares them with subscribers. Oxford Club also offers education seminars.



#### **A.1.d. Decision Point**

Decision Point is one of the leading analytical organizations in the country. Decision Point provides data and information on timing signals for indices, sectors, and analysis of the Top 50 indices and sectors. Decision Point also has extensive list technical tools that we utilize in analyzing indices, sectors, ETF's.

#### **A.1.e. Sentimental Trader**

Sentimental Trader is a analysis system that focuses on technical tools that include volatility, Put/Call Ratio, Breadth, Surveys, economic surveys, commitment of traders, short sales, and corporate insider trading. Sentimental trader also analysis ETF's such as Rydex and ProShares Long-Short analysis. Sentimental Trader focuses on seasonality, research, and commodity trading on a daily, weekly, monthly, and yearly basis to analyze the trend in trader's behavior.

### **A.2. Material Risks of Investment Instruments**

ISR typically invests in exchange traded funds but may also invest in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange traded funds
- Corporate debt securities, commercial paper and certificates of deposit
- Municipal securities
- U.S. government securities
- Option contracts on securities
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations
- Option contracts on indices
- Option contracts on futures
- Option contracts on commodities
- Futures contracts and index future contracts

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

ISR may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange Traded Funds ("ETFs")**

ISR may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear

their pro rata portion of the other investment company's advisory fee and other expenses in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

ISR may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and

instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.k. Corporate Debt Obligations**

ISR may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a

maturity of less than nine months. In addition, ISR may invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.I. Mortgage-Backed Securities**

ISR may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, ISR may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.2.m. Collateralized Obligations**

ISR may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is

issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

ISR may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

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#### **A.2.n. Option Contracts on Indices**

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

#### **A.2.o. Option Contracts on Futures**

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

#### **A.2.p. Option Contracts on Commodities**

Physical commodities include soft assets such as crops and coffee that are generally extracted from the ground, as well as hard assets such as minerals and metals that are mined. Investing in commodities carries significant risks, including price, credit and market risk. Many physical commodities, as well as intangible commodities (such as security or fixed income indices), serve as the underlier to commodity futures contracts.

### **A.2.q. Futures Contracts and Index Futures Contracts**

A futures contract is a bilateral agreement where one party agrees to accept and the other party agrees to make delivery of cash for an underlying debt security, as called for in the contract, at a specified date and at an agreed-upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **B.1. Leverage**

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

The technical trading strategy utilized by ISR involves short term trading. Short term trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

## **B.2. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry and sector performance.

## **B.3. Short Selling**

Although ISR generally does not engage in short selling certain of exchange traded funds it utilizes may employ a short selling strategy. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the borrowed security.

## **B.4. Option Strategies**

Holders of call options give the holder the right to acquire underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. ISR as part of its investment strategy may employ any of the following:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option



position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on a amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

#### **B.5. Concentration Risk**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

### **C. Security-Specific Material Risks**

ISR invests in a diversified portfolio of equity and fixed income securities. Please refer to Item 8.A. above.

## **Item 9: Disciplinary Information**

ISR has nothing to disclose for this item.

### **A. Criminal or Civil Actions**

ISR has nothing to disclose for this item.

### **B. Administrative Enforcement Proceedings**

ISR has nothing to disclose for this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

ISR has nothing to disclose for this item.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. Broker-Dealer or Representative Registration**

ISR's President and its registered employees are also licensed with NEXT Financial Group, Inc. ("NFGI"), as registered representatives of NFGI's broker-dealer affiliate and as investment advisor representatives of NFGI's investment advisor affiliate. Services provided by ISR's President and registered employees are provided through NFGI, d/b/a JMS Financial Services. ISR has primarily been a subscription service and has limitations due to SEC exemption as an internet advisor. Because ISR has these limitations, ISR provides JMS Financial Services with technical models and data to manage clients' assets through NFGI.

### **B. Futures or Commodity Registration**

Neither ISR nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

Certain managers, members and registered employees of ISR are agents for certain insurance carriers. With respect to the provision of financial planning services, ISR professionals may recommend insurance products offered by such carriers for whom they function as agents and receive a commission for doing so. Clients are advised of a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Clients are also advised that ISR professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with ISR professionals' employing broker-dealer.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Other than as disclosed in Item 10.A. and 10.C. above, ISR does not recommend securities investment products in which it receives any form of compensation from the separate account manager or investment product sponsor. ISR does recommend insurance products, which may include variable annuity products. ISR's professionals who maintain both a securities broker dealer and insurance license do receive commission payments for the sale of such insurance. However, such variable annuity products are not included as part of the investment advisory relationship between the client and ISR.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics Description**

In accordance with the Advisers Act, ISR has adopted policies and procedures designed to detect and prevent insider trading. In addition, ISR has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of ISR's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of ISR. ISR will send clients a copy of its Code of Ethics upon written request.

ISR has policies and procedures in place to ensure that the interests of its clients are given preference over those of ISR, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

ISR does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, ISR does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

ISR, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients.

### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

ISR, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other ISR clients. ISR will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of ISR to place its clients' interests above those of ISR and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

Subject to the conditions for managing accounts discussed in Item 7 above, ISR has specifically suggested that advisory clients use FOLIOfn as broker and custodian for their accounts. ISR suggests FOLIOfn because of its execution capability and competitive trading fees, and to facilitate the trading and management of clients' accounts by having the majority of client accounts resident at the same brokerage firm. FOLIOfn has two trading windows during the trading day. Orders may be entered at any time, but will only be executed at 11:00 a.m. CST and 2:00 p.m. CST. Orders requiring immediate disposition can be entered at any time, but at a significantly higher cost than would otherwise apply if the orders were executed at either or both of the two trading windows. Given the strategies employed by ISR, which involve a high degree of transaction volume, such strategies would be economically difficult to justify if trades were entered at times other than the two available trading windows.

In certain instances and subject to approval by ISR, ISR will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by ISR will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities; as a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

### B. Aggregating Securities Transactions for Client Accounts

#### B.1. Best Execution

ISR, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions. ISR recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. ISR will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to

- the financial strength, reputation and stability of the broker
- the efficiency with which the transaction is effected
- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)

- the availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- the efficiency of error resolution, clearance and settlement
- block trading and positioning capabilities
- performance measurement
- online access to computerized data regarding customer accounts
- availability, comprehensiveness, and frequency of brokerage and research services
- commission rates
- the economic benefit to the client
- related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, ISR seeks to ensure that clients receive best execution with respect to their transactions by blocking client trades to reduce transactions costs. To the best of ISR's knowledge, these custodians provide trade execution, and ISR's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, ISR believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Directed Brokerage**

### **B.2.a. ISR Recommendations**

ISR typically recommends FOLIO<sup>fn</sup> as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **B.2.b Client-Directed Brokerage**

Occasionally, clients may direct ISR to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage ISR derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. ISR loses the ability to aggregate trades with other ISR advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B.3. Security Allocation**

Since ISR may be managing accounts with similar investment objectives, ISR may aggregate orders for securities for such accounts. In such event, allocation of the

securities so purchased or sold, as well as expenses incurred in the transaction, is made by ISR in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

ISR's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. ISR will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

ISR's advice to certain clients and entities and the action of ISR for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of ISR with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of ISR to or on behalf of other clients.

#### **B.4. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if ISR believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.5. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

ISR acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interest of its clients.



#### **B.6. Soft Dollar Arrangements**

ISR does not utilize soft dollar arrangements. ISR does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **B.7. Brokerage for Client Referrals**

ISR does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **Item 13: Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

The market timing models are reviewed on a daily basis with a report supplied to the clients with the applicant's recommendations. The review is conducted by Rick Roberts and Jack Schwartz. The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, are conducted in the first instance by the ISR professional servicing the client relationship. Such professionals are subject to the general authority of ISR's President. The President or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The President or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy has been reviewed with the client.

### **B. Review of Client Accounts on Non-Periodic Basis**

ISR may perform *ad hoc* reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how ISR formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

The client's independent custodian provides regular account statements directly to the client detailing transaction activity, cash balance, and portfolio holdings. The custodian's statement is the official record of the client's securities account.

## **Item 14: Client Referrals and Other Compensation**

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Other than as described in Item 10 and Item 12 of this Brochure, ISR does not receive economic benefits from external sources.

### **B. Advisory Firm Payments for Client Referrals**

ISR may enter into agreements with solicitors who will refer prospective advisory clients to ISR in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with ISR. The solicitor must provide the client with a disclosure document describing the fees it receives from ISR, whether those fees represent an increase in fees that ISR would otherwise charge the client, and whether an affiliation exists between ISR and the solicitor.

## **Item 15: Custody**

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in their account. ISR urges its clients to compare the account balance(s) shown on their ISR performance review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to ISR with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In such cases, ISR will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the amount of commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## **Item 17: Voting Client Securities**

ISR does not take discretion with respect to voting proxies on behalf of its clients. ISR will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by or with respect to issuers of securities beneficially held as part of ISR supervised and/or managed assets. In no event will ISR take discretion with respect to voting proxies on behalf of its clients.

## **Item 18: Financial Information**

### **A. Balance Sheet**

ISR does not require the prepayment of fees of \$1,200 or more, six months or more in advance and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

ISR does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There are no bankruptcy petitions to report.